

Mbizana Local Municipality

Audit Report

For the year ended 30 June 2018

Report of the auditor-general to Eastern Cape Provincial Legislature and the council on the Mbizana Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Mbizana Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets and cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Mbizana Local Municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with South African Standards of GRAP and the requirements of the Municipal Finance Management Act of South Africa, 2013 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2016 (Act no. 3 of 2017) (Dora).

Context for the opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

7. As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2017 have been restated as a result of errors and reclassifications discovered during 2017 in the financial statements of the Mbizana Local Municipality for the year ended 30 June 2018.

Material losses

8. As disclosed in note 47 to the financial statements, material losses to the amount of R2, 9 million (2017: R2, 1 million) were incurred as a result of electricity distribution losses.

Material impairments

9. As disclosed in notes 10, 11 and 13 to the financial statements, impairments of R0, 6 million (2017: R0, 6 million) relating to other receivables from non-exchange transactions, impairments of R5, 4 million (2017: R4, 7 million) relating to receivables from non-exchange transactions and R11, 3 million (2017: R10, 4 million) relating to receivables from exchange transactions were incurred as a result of irrecoverable debtors.

Unauthorised expenditure

10. As disclosed in note 48 to the financial statements, the municipality incurred unauthorised expenditure of R52, 8 million (2017: R15, 4 million) during the year. This unauthorised expenditure was mainly due to overspending for personnel, depreciation, asset impairment and non-cash disposals of PPE and for electrification-completed projects transferred to Eskom.

Irregular expenditure

11. As disclosed in note 50 to the financial statements, irregular expenditure of R2,9 million (2017: R2,9 million) were incurred due to the contravention of the supply chain management policy and legislation.

Additional matter

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

13. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with this legislation. This disclosure requirement did not form part of the audit of the separate financial statements and accordingly, I do not express an opinion thereon.

Responsibilities of accounting officer for the financial statements

14. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of General Recognised Accounting Practice and the requirements of the MFMA and Dora and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
15. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting

unless the accounting officer either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

16. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
17. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

18. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
19. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
20. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2018:

Objectives	Pages in the annual performance report
Basic services: engineering community services	x – x
Basic services: community services	x – x
Local economic development and spatial planning	x – x

21. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether

the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

22. I did not identify any material findings on the usefulness and reliability of the reported performance information for the selected objectives.

Other matters

23. I draw attention to the matters below.

Achievement of planned targets

24. Refer to the annual performance report on page(s) x to x; for information on the achievement of planned targets for the year and explanations provided for the under- or overachievement of a number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph(s) [x; x; x] of this report.

Report on audit of compliance with legislation

Introduction and scope

25. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

26. The material findings on compliance with specific matters in key legislations are as follows:

Expenditure Management

27. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R52, 8 million, as disclosed in note 46 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.
28. The total unforeseen and unavoidable expenditure incurred is greater than R5 million, which is in contravention of municipal budget and reporting regulation 72.
29. Effective steps were not taken to prevent fruitless and wasteful expenditure of R144 638, as disclosed in note 49 to the annual financial statements, in contravention of section 62(1) (d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest on late payments and penalties for exceeding prescribed usage limit to ESKOM and errata as well as re-advertisements.

Consequence management

30. Unauthorised, expenditure incurred by the municipality in the previous financial year was not investigated to determine if any person is liable for the expenditure, as required by section 32(2) of the MFMA.

Other information

31. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report and the audit committee's report. The other information does not include the financial statements, the auditor's report thereon and those selected objectives presented in the annual performance report that have been specifically reported on in the auditor's report.

32. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

33. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

34. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report on that fact. I have nothing to report in this regard.

Internal control deficiencies

35. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

36. Although the leadership structure of the municipality has improved from the prior year, it was still not adequate to ensure that all disciplines necessary to enable effective oversight that promotes efficiency and effectiveness in financial management and compliance with laws and regulations have been implemented. The slow progress in the audit intervention plan of the municipality is also a concern. This has resulted in the non-improvement in the implementation of the oversight responsibility with regard to internal control deficiencies identified during the year. Material non-compliance issues have been identified due to a lack of management oversight to the compliance of the applicable laws and regulations and policies by the municipality.

37. Material non-compliance issues have been identified due to a lack of management oversight regarding compliance with the applicable laws and regulations and policies by the municipality.

38. The audit committee held regular meetings as required by the MFMA to address internal control deficiencies identified and quarterly reports. Their oversight effectiveness on ensuring improved control environment in financial management and compliance with laws and regulations still require improvement.

AUDITOR-GENERAL

East London
30 November 2018



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor's report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control.
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer's use of the going concerns basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Mbizana Local Municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
 - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and here applicable, related safeguards.